

BUTTE-MEADE SANITARY WATER DISTRICT
FINANCIAL REPORT
DECEMBER 31, 2012 AND 2011



**BUTTE-MEADE SANITARY WATER DISTRICT
DECEMBER 31, 2012 AND 2011**

TABLE OF CONTENTS

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	1-3
SCHEDULE OF CURRENT AUDIT FINDINGS AND RESPONSES	4-5
INDEPENDENT AUDITOR'S REPORT	6-8
MANAGEMENT DISCUSSION AND ANALYSIS	9-10
FINANCIAL STATEMENTS	
Statements of Net Position.....	11
Statements of Revenues, Expenses, and Changes in Net Position	12
Statements of Cash Flows.....	13-14
Notes to Financial Statements.....	15-24
SUPPLEMENTARY INFORMATION	
Supplementary Information Schedules.....	25



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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors
Butte-Meade Sanitary Water District
Newell, South Dakota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Butte-Meade Sanitary Water District (the District) as of and for the years ended December 31, 2012 and 2011, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated July 10, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Butte-Meade Sanitary Water District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Butte-Meade Sanitary Water District's internal control. Accordingly, we do not express an opinion on the effectiveness of Butte-Meade Sanitary Water District's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect, and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.



**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*
(CONTINUED)**

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2012-1 and 2012-2 that we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Butte-Meade Sanitary Water District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Butte Meade Sanitary Water District's Response to Findings

The District's response to the findings identified in our audit is described in the accompanying Schedule of Current Findings and Responses. The District's response was not subject to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*
(CONCLUDED)

As required by South Dakota Codified Law 4-11-11, this report is a matter of public record and its distribution is not limited.

David Pummel & Associates, LLP

July 15, 2013



**BUTTE MEADE SANITARY WATER DISTRICT
SCHEDULE OF CURRENT AUDIT FINDINGS AND RESPONSES
YEAR ENDED DECEMBER 31, 2012**

FINDING 2012-1

SEGREGATION OF DUTIES

CRITERIA

An adequate segregation of duties strengthens the effectiveness of the internal control process.

CONDITION FOUND

There is a lack of segregation of duties over receipts and disbursements within the District.

CAUSE

The size of the district staff does not provide for an optimum segregation of duties.

EFFECT

Two employees perform most procedures of the receipting process and another employee performs most procedures of the disbursement process.

RECOMMENDATION

The board of directors and manager should continue to perform all practical oversight and review functions.

MANAGEMENT'S RESPONSE

Management and the board of directors will continue to perform oversight and review functions and will implement additional oversight and review procedures where practical.



**BUTTE MEADE SANITARY WATER DISTRICT
SCHEDULE OF CURRENT AUDIT FINDINGS AND RESPONSES (CONTINUED)
YEAR ENDED DECEMBER 31, 2012**

FINDING 2012-2

REVENUE RECOGNITION

CRITERIA

Proprietary fund revenue is recognized using the accrual basis of accounting. Revenues are recognized when they are earned.

CONDITION FOUND

The District is implementing a new meter reading system. Water sales are not being recognized in the period earned.

CAUSE

Implementation of the new meter reading system is taking longer than anticipated. Software information reporting has had to be customized by the developer and procedures have been inconsistent regarding cut-off.

EFFECT

Water sales and water payments are not consistently being recorded in the correct period.

RECOMMENDATION

Water sales should be recognized in the period the customer uses the water. Customer receipts should be recognized when received by the District office.

MANAGEMENT'S RESPONSE

Meters on the new system will be read and posted as close to month end as possible. Customer payments will be recorded as received.



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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Butte-Meade Sanitary Water District
Newell, South Dakota

Report on the Financial Statements

We have audited the accompanying financial statements of Butte-Meade Sanitary Water District (the District), as of and for the years ended December 31, 2012 and 2011, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair



INDEPENDENT AUDITOR'S REPORT (CONTINUED)

presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Butte-Meade Sanitary Water District, as of December 31, 2012 and 2011, and the respective changes in financial position, and, cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis information on pages 9 and 10 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.



INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Butte-Meade Sanitary Water District's basic financial statements. The supplementary information schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary information schedules have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated July 15, 2013, on our consideration of the Butte-Meade Sanitary Water District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Butte-Meade Sanitary Water District's internal control over financial reporting and compliance.

David Pummel & Associates, LLP

July 15, 2013



**BUTTE-MEADE SANITARY WATER DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
DECEMBER 31, 2012**

FINANCIAL HIGHLIGHTS

Butte Meade Sanitary Water District's (the District) net position increased by \$135,892 from 2011 to 2012. The increase was due to a grant received from the South Dakota Department of Natural Resources for the customer meter replacement project. In addition, a \$10 base rate increase was required for loan funding of the same customer meter replacement project. The District had replaced approximately 25% of customer meters to the new remote read system at year-end. Loan repayment will begin in 2013.

Water sales and other sales are directly linked to customer demand. 2012 water sales and other sales increased \$158,380 from 2011 due to increased demand and a \$10 per month increase to the base rate beginning in August 2011. The District is noticing a shift to more residential customers and less commercial customers, with the addition of housing developments and the loss of agriculture based users. Other sales reflect both new construction and repair and maintenance done by District customers. Customers buy material at cost, plus sales tax, through the District. Customer payments constitute other sales.

In 2012, total operating expenses increased \$68,552. Repair costs decreased \$6,687 due to replacement of a water line south of Newell.

The District retired \$45,962 in existing debt during the year. The District borrowed \$158,622 from the South Dakota Board of Water and Natural Resources Drinking Water State Revolving Fund loan for water meter replacement and billing system upgrade. An additional \$55,602 will be borrowed in 2013 for a total loan of \$214,224. Repayment will begin in July 2013.

OVERVIEW OF FINANCIAL STATEMENTS

This report consists of the management discussion and analysis, the basic financial statements, and supplementary information. All District activities are conducted within one enterprise fund.

ECONOMIC FACTORS AND NEXT YEAR'S RATES

There were no significant changes in operations for the District from the prior year. The District will replace manual water meters with remote read meters during 2013 and begin loan repayment received for this project. A rate increase in 2011 was required by the lender to assist with increased operating costs associated with the meter replacements.

**BUTTE-MEADE SANITARY WATER DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)
DECEMBER 31, 2012 AND 2011**

ECONOMIC FACTORS AND NEXT YEAR'S RATES (CONTINUED)

Traditionally all loan obligations are met, and any excess transferred to the operation and maintenance account to fund larger projects, maintenance, or repairs that would exceed normal budgeted amounts.

FINANCIAL ANALYSIS OF THE DISTRICT

The District's statements of net position and activities changed as follows:

	<u>2012</u>	<u>2011</u>
Current assets	\$ 340,920	\$ 272,773
Restricted cash and funded reserves	182,313	181,308
Property and equipment	2,481,217	2,295,327
Total assets	<u>\$ 3,004,450</u>	<u>\$ 2,749,408</u>
Current liabilities	\$ 75,536	\$ 61,000
Meter deposits	70,661	68,515
Long-term debt	1,312,550	1,210,082
Total liabilities	<u>1,458,747</u>	<u>1,339,597</u>
Net position -		
Net investment in capital assets	1,111,820	1,038,724
Restricted	110,744	110,042
Unrestricted	323,139	261,045
Total net position	<u>\$ 1,545,703</u>	<u>\$ 1,409,811</u>
Water and other operating revenue	\$ 827,309	\$ 668,929
Operating expense	(672,666)	(604,114)
Non-operating income and expense	(18,751)	(65,422)
Increase (decrease) in net position	135,892	(607)
Net position - beginning of year	1,409,811	1,410,418
Net position - end of year	<u>\$ 1,545,703</u>	<u>\$ 1,409,811</u>

CONTACTING DISTRICT MANAGEMENT

This financial report is designed to provide the members, customers, and creditors with a general overview of the District's finances and demonstrate the District's accountability for the money it receives. If you have any questions about this report or need additional information, contact Butte-Meade Sanitary Water District, PO Box 5, Newell, SD 57760.

**BUTTE-MEADE SANITARY WATER DISTRICT
STATEMENTS OF NET POSITION
DECEMBER 31, 2012 AND 2011**

ASSETS

	<u>2012</u>	<u>2011</u>
CURRENT ASSETS		
Cash	\$ 85,386	\$ 70,913
Savings	107,739	72,642
Accounts receivable - billed	25,866	8,842
Accounts receivable - unbilled	33,608	41,047
Accrued interest receivable	184	211
Inventory	63,357	56,012
Prepaid expenses	<u>24,780</u>	<u>23,106</u>
TOTAL CURRENT ASSETS	<u>340,920</u>	<u>272,773</u>
RESTRICTED CASH AND FUNDED RESERVES		
Rural Development reserve - cash	55,863	55,842
Rural Development reserve - certificate of deposit	54,881	54,200
Meter deposits held for members - cash	8,266	8,263
Meter deposits held for members - certificate of deposit	<u>63,303</u>	<u>63,003</u>
	<u>182,313</u>	<u>181,308</u>
PROPERTY AND EQUIPMENT		
Furniture and equipment	35,787	32,940
Buildings and structures	98,683	98,683
Equipment - miscellaneous	27,498	25,763
Collection & distribution system	5,042,198	4,788,703
Land	14,087	14,087
Vehicles	<u>44,571</u>	<u>36,083</u>
	5,262,824	4,996,259
Less accumulated depreciation	(<u>2,781,607</u>)	(<u>2,700,932</u>)
	<u>2,481,217</u>	<u>2,295,327</u>
TOTAL ASSETS	<u>\$ 3,004,450</u>	<u>\$ 2,749,408</u>

See accompanying notes.



LIABILITIES AND NET POSITION

	<u>2012</u>	<u>2011</u>
CURRENT LIABILITIES		
Current maturities of long-term debt	\$ 56,714	\$ 46,522
Accounts payable	17,770	13,344
Accrued interest payable	<u>1,052</u>	<u>1,134</u>
TOTAL CURRENT LIABILITIES	<u>75,536</u>	<u>61,000</u>
 DEPOSITS		
Meter deposits	<u>70,661</u>	<u>68,515</u>
	<u>70,661</u>	<u>68,515</u>
 LONG-TERM DEBT, NET CURRENT MATURITIES		
Mortgages and notes payable	<u>1,312,550</u>	<u>1,210,082</u>
	<u>1,312,550</u>	<u>1,210,082</u>
 TOTAL LIABILITIES	<u>1,458,747</u>	<u>1,339,597</u>
 NET POSITION		
Net investment in capital assets	1,111,820	1,038,724
Restricted	110,744	110,042
Unrestricted	<u>323,139</u>	<u>261,045</u>
TOTAL NET POSITION	<u>1,545,703</u>	<u>1,409,811</u>
 TOTAL LIABILITIES AND NET POSITION	<u>\$ 3,004,450</u>	<u>\$ 2,749,408</u>



BUTTE-MEADE SANITARY WATER DISTRICT
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
OPERATING REVENUE		
Water sales	\$ 802,803	\$ 647,336
Other sales	<u>24,506</u>	<u>21,593</u>
	<u>827,309</u>	<u>668,929</u>
OPERATING EXPENSES		
Auto	18,809	18,108
Depreciation	92,747	86,704
Insurance	27,094	26,254
Mileage	489	664
Miscellaneous expense	2,000	--
Directors' fees	3,900	4,000
Office expense, dues, and travel	22,576	14,205
Payroll taxes	19,499	17,001
Professional fees	17,836	18,914
Maintenance and supplies	110,800	117,487
Employee benefits	49,324	35,313
Wages	254,887	222,238
Utilities	<u>52,705</u>	<u>43,226</u>
	<u>672,666</u>	<u>604,114</u>
OPERATING INCOME	<u>154,643</u>	<u>64,815</u>
NONOPERATING REVENUE (EXPENSE)		
Gain on disposal of equipment	5,079	--
Grant income	43,444	3,506
Interest income	1,059	1,593
Interest expense	(68,933)	(70,721)
	<u>(19,351)</u>	<u>(65,622)</u>
NET INCOME (LOSS)	135,292	(807)
Add additional memberships	<u>600</u>	<u>200</u>
INCREASE (DECREASE) IN NET POSITION	135,892	(607)
NET POSITION - BEGINNING OF YEAR	<u>1,409,811</u>	<u>1,410,418</u>
NET POSITION - END OF YEAR	<u>\$ 1,545,703</u>	<u>\$ 1,409,811</u>

See accompanying notes.



BUTTE-MEADE SANITARY WATER DISTRICT
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash receipts from customers	\$ 819,870	\$ 659,439
Cash payments to employees for services	(323,710)	(274,552)
Cash payments to other suppliers of goods and services	(262,224)	(232,123)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>233,936</u>	<u>152,764</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of certificates of deposit	(981)	(1,573)
Interest received	<u>1,086</u>	<u>1,784</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>105</u>	<u>211</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Grants	43,444	3,506
Memberships	<u>600</u>	<u>200</u>
NET CASH PROVIDED BY NON-CAPITAL FINANCING ACTIVITIES	<u>44,044</u>	<u>3,706</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of equipment	(278,556)	(47,953)
Proceeds from disposal of equipment	6,420	--
Proceeds from long-term debt	158,622	--
Payments of long-term debt	(45,962)	(44,174)
Interest paid	(69,015)	(70,800)
NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	(228,491)	(162,927)
NET INCREASE (DECREASE) IN CASH	49,594	6,246
CASH - BEGINNING OF PERIOD	<u>207,660</u>	<u>213,906</u>
CASH - END OF PERIOD	<u>\$ 257,254</u>	<u>\$ 207,660</u>

See accompanying notes.



BUTTE-MEADE SANITARY WATER DISTRICT
STATEMENTS OF CASH FLOWS (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	\$ 154,643	\$ 64,815
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	92,747	86,704
(Increase) decrease in		
Accounts receivable	(9,585)	(11,265)
Inventory	(7,345)	9,187
Prepaid expenses	(1,674)	(1,317)
Increase in		
Meter deposits	2,146	1,775
Accounts payable	<u>3,004</u>	<u>2,865</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 233,936</u>	<u>\$ 152,764</u>

See accompanying notes.



BUTTE-MEADE SANITARY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011

NOTE 1 - NATURE OF ACTIVITIES

The Butte-Meade Sanitary Water District (the District) is a government entity comprised of one enterprise fund. The financial statements are reported on the accrual basis of accounting. The accrual basis of accounting recognizes revenue when earned and expenditures when a liability is incurred. The District is a subdivision of the government of the State of South Dakota.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- A. Accounts receivable - unbilled
Unbilled accounts receivable represent estimated water revenues earned by the District which had not been billed to customers at year end.
- B. Inventory
Inventory is stated at cost, as determined on the first-in, first-out method.
- C. Property and equipment
Property and equipment are carried at cost less accumulated depreciation. Depreciation is calculated on the straight-line method over the estimated useful lives of the depreciable assets. The estimated useful lives are as follows:

Furniture and fixtures	5-10 years
Buildings and structures	10-40 years
Equipment	5-10 years
Collection system	5-40 years
Distribution system	10-50 years

The District's policy is to capitalize those assets with a useful life greater than one year, and an initial acquisition cost of \$200 or more. Subsequent to initial capitalization, improvements or betterments that are significant and which extend the useful life of a capital asset are also capitalized. The District capitalizes interest expense during construction projects.

**BUTTE-MEADE SANITARY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2012 AND 2011**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- D. Vacation and sick leave
Annual leave is earned by the full-time employees at a rate of two weeks after 1 year, three weeks from 10 to 19 years and four weeks after 20 years. Sick leave is earned by full-time employees at a rate of twelve (12) days per year. Upon termination the employees are not entitled to receive compensation for their annual leave or sick leave balances. The District's policy for annual leave and sick leave is that the employee must use or lose leave balances by January 1 of each year.
- E. Revenue and expense classifications
In the proprietary fund's Statement of Activities, revenues and expenses are classified in a manner consistent with how they are classified in the Statement of Cash Flows. That is, transactions for which related cash flows are reported as capital and related financing activities, non-capital financing activities, or investing activities are not reported as components of operating revenues or expenses.
- F. Estimates
Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from those estimates.
- G. Cash and cash equivalents
For the purpose of the Statement of Cash Flows, the District considers all highly liquid investments and deposits with a term to maturity of three months or less to be cash equivalents.
- H. Deposits and Investments
For the purpose of financial reporting, "cash and cash equivalents" includes all demand and savings accounts and certificates of deposit or short-term investments with a term to maturity at date of acquisition of three months or less. Investments in open-end mutual fund shares, or similar investments in external investment pools, are also considered to be cash equivalents.

**BUTTE-MEADE SANITARY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2012 AND 2011**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONCLUDED)

I. Equity classifications

Equity is classified as net position and is displayed in three components:

1. Net investment in capital assets, consists of capital assets, including restricted capital assets, net of accumulated depreciation (if applicable) and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
2. Restricted net position - consists of net position with constraints placed on their use either by (a) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation.
3. Unrestricted net position - all other net position that do not meet the definition of "restricted" or "net investment in capital assets."

J. Application of net position

It is the District's policy to first use restricted net position, prior to the use of unrestricted net position, when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

NOTE 3 - DEPOSITS AND INVESTMENTS, CREDIT RISK, CONCENTRATIONS OF CREDIT RISK, AND INTEREST RATE RISK

Deposits and investments

Various restrictions on deposits and investments are imposed by statutes. These restrictions are summarized below:

Deposits - The District's cash deposits are made in qualified public depositories as defined by SDCL 4-6A-1, 9-22-6, 9-22-6.1 and 9-22-6.2, and may be in the form of demand or time deposits. Qualified depositories are required by SDCL 4-6A-3 to maintain at all times, segregated from their other assets, eligible collateral having a value equal to at least 100 percent of the public deposit accounts which exceed deposit insurance such as

BUTTE-MEADE SANITARY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2012 AND 2011

NOTE 3 - DEPOSITS AND INVESTMENTS, CREDIT RISK, CONCENTRATIONS OF CREDIT RISK, AND INTEREST RATE RISK (CONTINUED)

the FDIC and NCUA. In lieu of pledging eligible securities, a qualified public depository may furnish irrevocable standby letters of credit issued by federal home loan banks accompanied by written evidence of that bank's public debt rating which may not be less than "AA" or a qualified public depository may furnish a corporate surety bond of a corporation authorized to do business in South Dakota.

Custodial Credit Risk - Deposits - The risk that, in the event of a depository failure, the District's deposits may not be returned to it. The District does not have a deposit policy for custodial credit risk. As of December 31, 2012 the District's deposits in financial institutions were exposed to custodial credit risk as follows:

<u>Depository Name</u>	<u>% Under-Collateralized</u>	<u>At-Risk Amount</u>
First National Bank	4.02%	<u>\$3,704</u>
Total Deposits Exposed to Custodial Credit Risk		<u>\$3,704</u>

Investments - In general, SDCL 4-5-6 permits District funds to be invested only in (a) securities of the United States and securities guaranteed by the United States Government either directly or indirectly; or (b) repurchase agreements fully collateralized by securities described in (a) above; or in shares of an open-end, no-load fund administered by an investment company whose investments are in securities described in (a) above and repurchase agreements described in (b) above. Also, SDCL 4-5-9 requires investments to be in the physical custody of the political subdivision or may be deposited in a safekeeping account with any bank or trust company designated by the political subdivision as its fiscal agent.



BUTTE-MEADE SANITARY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2012 AND 2011

NOTE 3 - DEPOSITS AND INVESTMENTS, CREDIT RISK, CONCENTRATIONS OF CREDIT RISK, AND INTEREST RATE RISK (CONCLUDED)

Credit Risk - State law limits eligible investments for the District as discussed above. The District has no investment policy that would further limit its investment choices.

The District had no investments as of December 31, 2012.

NOTE 4 - PROPERTY AND EQUIPMENT

Summary by category of changes in property and equipment:

<u>Category</u>	<u>Balance December 31, 2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance December 31, 2012</u>
Land	\$ 14,087	\$	\$ --	\$ 14,087
Furniture and equipment	32,940	2,847	--	35,787
Buildings and structures	98,683	--	--	98,683
Equipment - miscellaneous	25,763	1,735	--	27,498
Collection and distribution system	4,788,703	253,495	--	5,042,198
Vehicles	36,083	21,900	13,412	44,571
	<u>\$ 4,996,259</u>	<u>\$ 279,977</u>	<u>\$ 13,412</u>	<u>\$ 5,262,824</u>

Summary by category of changes in accumulated depreciation:

<u>Category</u>	<u>Balance December 31, 2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance December 31, 2012</u>
Furniture and equipment	\$ 23,678	\$ 2,414	\$ --	\$ 26,092
Buildings and structures	35,765	2,582	--	38,347
Equipment - miscellaneous	12,577	2,188	--	14,765
Collection and distribution system	2,596,168	82,833	--	2,679,001
Vehicles	32,744	2,730	12,072	23,402
	<u>\$ 2,700,932</u>	<u>\$ 92,747</u>	<u>\$ 12,072</u>	<u>\$ 2,781,607</u>

BUTTE-MEADE SANITARY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2012 AND 2011

NOTE 5 - LONG-TERM DEBT

Long-term debt consisted of the following at December 31:

	<u>2012</u>	<u>2011</u>
5% revenue bond due Rural Development, payable in annual installments of \$5,870 including interest, maturing December 2013.	\$ 4,289	\$ 9,675
6.625% revenue bond due Rural Development, payable in monthly installments of \$5,236 including interest, maturing June 2032.	680,363	697,503
5.125% revenue bond due Rural Development, payable in monthly installments of \$667 including interest, maturing December 2016.	28,845	35,193
5% revenue bond due Rural Development, payable in monthly installments of \$574 including interest, maturing December 2016.	24,915	30,410
4.125% revenue bond due Rural Development, payable in monthly installments of \$1,939 including interest, maturing July 2048.	430,010	435,419
3% loan due National Rural Water System, payable in monthly installments of \$676 including interest, maturing August 2018.	42,220	48,404

BUTTE-MEADE SANITARY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2012 AND 2011

NOTE 5 - LONG-TERM DEBT (CONTINUED)

	<u>2012</u>	<u>2011</u>
2.25% loan due South Dakota Department of Natural Resources in quarterly installments of \$5,661 including interest. Payments begin July 15, 2013. The loan matures April 2023.	<u>158,622</u>	<u>--</u>
	1,369,264	1,256,604
Less current maturities	(<u>56,714</u>)	(<u>46,522</u>)
	<u>\$ 1,312,550</u>	<u>\$ 1,210,082</u>

The annual requirements to amortize all long-term debt outstanding as of December 31, 2012, including interest payments of \$937,286 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 56,714	\$ 68,277	\$ 124,991
2014	64,150	67,600	131,750
2015	67,049	64,701	131,750
2016	70,022	61,646	131,668
2017	58,066	58,790	116,856
2018-2022	262,071	254,673	516,744
2023-2027	249,374	181,126	430,500
2028-2032	283,225	92,528	375,753
2033-2037	69,840	46,500	116,340
2038-2042	85,808	30,532	116,340
thereafter	102,945	10,913	113,858
	<u>\$ 1,369,264</u>	<u>\$ 937,286</u>	<u>\$ 2,306,550</u>

The terms of the revenue bonds require that the District maintain a debt service account. A sum equal to the minimum of 1/12 of the annual installment coming due on the next succeeding January 1, is to be deposited to this account each month. Principal and interest payments are to be made from this account. At December 31, 2012, the District was in complete compliance with these terms.



BUTTE-MEADE SANITARY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2012 AND 2011

NOTE 5 - LONG-TERM DEBT (CONCLUDED)

The terms of the revenue bonds also require that all the surplus net revenues, in excess of the amounts required in the maintenance of the debt service account noted above, be deposited in a reserve account. This account shall be used for major repairs, maintenance, and improvements on the water system. No funds were available for deposit to this account as of December 31, 2012.

A summary of the changes in long-term debt follows:

	Balance December 31, 2011	<u>Proceeds</u>	<u>Retired</u>	Balance December 31, 2012	Due Within One Year
Revenue Bonds -					
Rural					
Development	\$ 1,208,200	\$ --	(\$ 39,778)	\$ 1,168,422	\$ 40,685
Note Payable -					
National Rural					
Water System	48,404	--	(6,184)	42,220	6,957
Note Payable -					
South Dakota					
Department of					
Natural					
Resources	--	158,622	(--)	158,622	9,072
	<u>\$ 1,256,604</u>	<u>\$ 158,622</u>	<u>(\$ 45,962)</u>	<u>\$ 1,369,264</u>	<u>\$ 56,714</u>

NOTE 6 - RETIREMENT PLAN

All employees, except for part-time, participate in the South Dakota Retirement System (SDRS), a cost-sharing, multiple employer public employee retirement system established to provide retirement benefits for employees of the State of South Dakota and its political subdivisions. The SDRS provides retirement, disability, and survivors' benefits. The right to receive retirement benefits vests after three years of credited service. Authority for establishing, administering, and amending plan provisions are found in South Dakota Codified Law 3-12. The SDRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the SDRS, P.O. Box 1098, Pierre, SD 57501-1098 or by calling (605) 773-3731.

**BUTTE-MEADE SANITARY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2012 AND 2011**

NOTE 6 - RETIREMENT PLAN (CONTINUED)

General employees are required by state statute to contribute 6 percent of their salary to the plan, while public safety and judicial employees contribute at 8 percent and 9 percent, respectively. State statute also requires the employer to contribute an amount equal to the employee's contribution. State statute also requires the employer to make an additional contribution in the amount of 6.2 percent for any compensation exceeding the maximum taxable amount for social security for general employees only. The District's share of contributions to the SDRS for the fiscal years ended December 31, 2012, 2011, and 2010 were \$15,136, \$12,921, and \$12,416 respectively, equal to the required contributions each year.

NOTE 7 - RURAL DEVELOPMENT RESERVES

Cash held in Rural Development reserve accounts consists of funds set aside for debt service, repairs, replacements, improvements, and additions as approved by Rural Development.

NOTE 8 - INSURANCE COVERAGE

The District has the following insurance coverage:

Employer's Mutual Policy #56869,
November 15, 2012 to November 15, 2013

Property coverage	\$ 2,844,659
Umbrella coverage	\$ 1,000,000
Liability coverage	
Occurrence limit	\$ 1,000,000
Aggregate limit	\$ 2,000,000
Medical expense limit	\$ 5,000

Automobile coverage	
Liability	\$ 1,000,000
Uninsured motorists	\$ 1,000,000
Underinsured motorists	\$ 1,000,000

Workers Compensation	
Accident limit (per accident)	\$ 500,000
Disease limit (per employee)	\$ 500,000
Disease policy limit	\$ 500,000

**BUTTE-MEADE SANITARY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONCLUDED)
DECEMBER 31, 2012 AND 2011**

NOTE 8 - INSURANCE COVERAGE (CONTINUED)

Directors and Officers Liability \$ 1,000,000

Western Surety Company
Fidelity Bond #5240227, October 31, 2012 to
October 31, 2013 \$175,000 clerk/treasurer

NOTE 9 - RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the period ended December 31, 2012, the District managed its risks as follows:

Employee Health Insurance

The District does not provide health insurance for its employees.

Liability Insurance

The District purchases liability insurance for risks related to torts; theft of or damage to property; errors and omissions of directors and officers; and automobile accident or damage from a commercial insurance carrier.

Worker's Compensation

The District purchases liability insurance for worker's compensation from a commercial carrier. Settled claims resulting from these risks have not exceeded the liability coverage during the past three years.

Unemployment Benefits

The District provides coverage for unemployment benefits by paying into the Unemployment Compensation Fund established by state law and managed by the State of South Dakota.

NOTE 10 - SUBSEQUENT EVENTS

The District had no subsequent events requiring recording or disclosure in the financial statements through July 15, 2013, which is the date the financial statements were available to be issued

**BUTTE-MEADE SANITARY WATER DISTRICT
SUPPLEMENTARY INFORMATION SCHEDULES
FOR THE YEAR ENDED DECEMBER 31, 2012**

METER DEPOSITS

Water meter deposits are held separately in depository accounts in the name of the District.

COMPENSATION OF DIRECTORS

For the years ended December 31, 2012 and 2011, fees of \$3,900 and \$4,000 and mileage of \$490 and \$664 were paid to directors.

RURAL DEVELOPMENT RESERVES

In accordance with the provisions of the regulatory agreement, restricted cash is held by First National Bank which is insured by the Federal Deposit Insurance Corporation. Restricted cash is to be used for debt service, repairs, replacements, and improvements of property as approved by Rural Development. Restricted cash transactions for the year ended December 31, 2012 are as follows:

Balance - December 31, 2011	\$ 110,042
Deposits	702
Withdrawals	<u> -- </u>
Balance - December 31, 2012	110,744
Required balance	<u>106,864</u>
Amount in excess	<u><u>\$ 3,880</u></u>

AGED ACCOUNTS RECEIVABLE

Current	\$ 58,540
31-60 days	1,074
61-90 days	(137)
91 days and over	<u>(3)</u>
	<u><u>\$ 59,474</u></u>